Financial Improvement: Advancing Modernization

Presented By:

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What is the
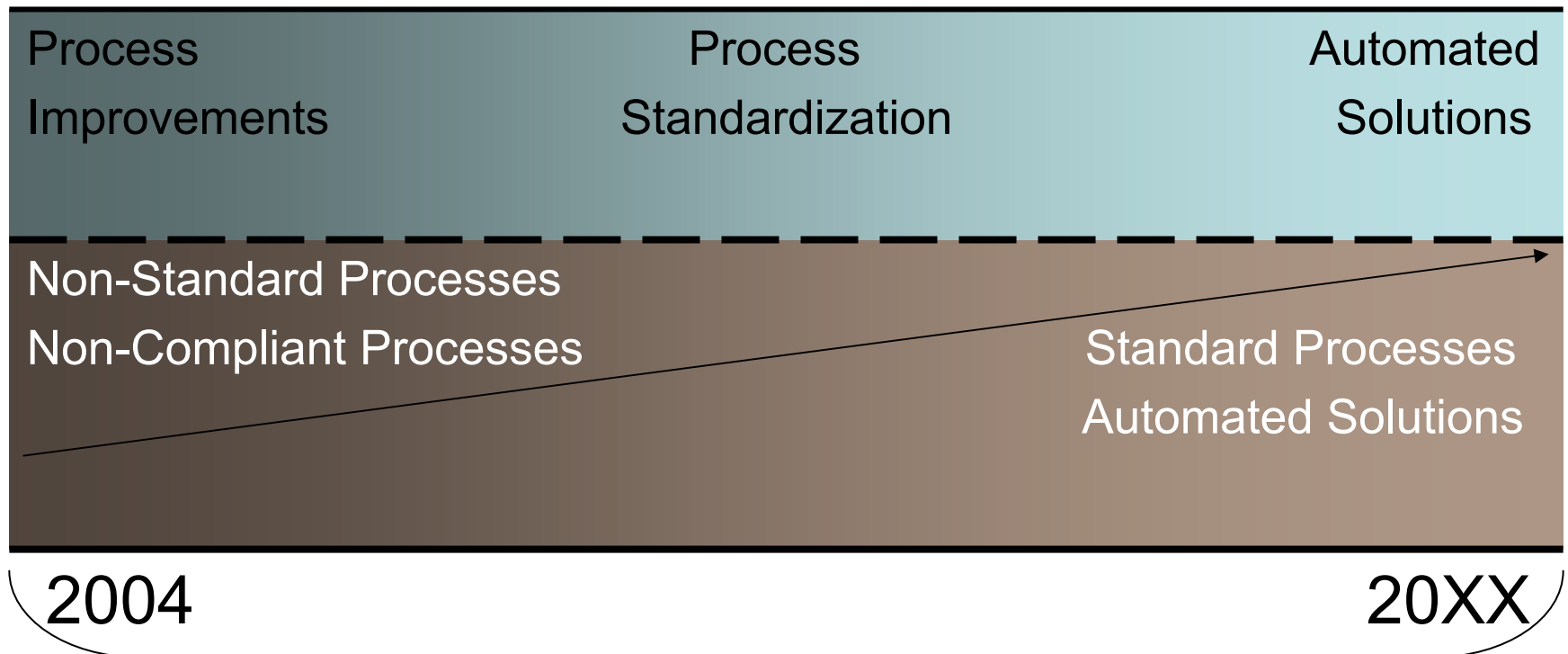# Financial Improvement Initiative?

The FII is DoD's approach to improving financial management so that leaders can make informed decision based on information that has been substantiated by an independent audit.

Objectives:
– Report financial information that improves financial decision-making and accountability
– Affirm the credibility of DoD's financial statements
– Ensure accurate data and information is transferred from the current environment to the reengineered environment created by the Business Management Modernization Program

– Implement incremental, disciplined approach that aligns with Business Management Modernization Program and clearly defines process and control requirements for the reengineered environment.

Financial Improvement Strategy

"90% of the benefits realized occur outside of IT and are rarely the result of new software purchases" (AMR Research)

Process Improvements	Process Standardization	Automated Solutions

Non-Standard Processes
Non-Compliant Processes

Standard Processes
Automated Solutions

2004   20XX

Business Management Modernization Program (BMMP)

Material Weakness Solutions

Material Weakness	Processes	Enabler	Tools
Financial Management Systems	Secondary	United States Standard General Ledger & Standard Financial Information Structure	Primary
Intragovernmental Eliminations	Secondary		Primary
Accounting Entries	Secondary		Primary
Fund Balance with Treasury	Primary		Secondary
Environmental Liabilities	Primary		
General Property, Plant, & Equipment (PP&E)	Primary		Secondary
Government Furnished Material and Contractor Acquired Material	Both		Both
Inventory	Both		Both
Operating Materials and Supplies (OM&S)	Both		Both
Statement of Net Cost	Primary		Secondary
Statement of Financing	Secondary		Primary

Progress to Date

- Established Governance Structure
  - Executive Steering Committee
  - Review and Prioritization Sub-Committee
  - Funding Sub-Committee
- Established Business Rules: 5 Phases to Success
  - Discovery and Correction
  - Validation
  - Assertion
  - Assessment
  - Audit
- Published Rules for Asserting to the Auditors
- Collected plans
- Gained experience through review of plans:
  - Identified required plan elements
  - Identified initial areas ready for audit
  - Better understanding of magnitude
- Reviewed several draft assertions packages for Navy and Air Force
- In the process of implementing a web-based tool for identifying the deficiencies and solutions for all of DoD

Snapshot of Target Areas

Financial Improvement Initiative

<u>FY 2005 Focus</u>

- Real Property
- Health Care Data
- Environmental Liabilities
- Military Equipment

<u>Ongoing Focus</u>

- Inventory & OM&S
- Fund Balance With Treasury

Accounting & Finance Domain

<u>FY 2005 Focus</u>

- Standard Financial Information Structure (SFIS)
- US Standard General Ledger
- Acquisition of Pilot Systems
- Business Process Reengineering (BPR) at the Enterprise Level

Real Property

- ## What?
  - Real Property for all military departments
- ## Why?
  - Initial baseline done in 1998
  - Military departments have been tracking adds and deletes
  - Next to Military Equipment, Real Property is next largest percentage of PP&E
  - **Solution is NOT entirely systems dependent**

- ## Benefits to Management
  - Better knowledge of infrastructure for determining appropriate size to meet mission needs
- ## Lead Domain involved: Installations & Environment (I&E)

Health Care Data

- ## What?
  - Coding of data at the Military Treatment Facilities

- ## Why?
  - Coding errors are not systems dependent
  - Medicare Eligible Retiree Health Care Fund received qualified opinion in FY 2003 and FY 2004
  - Significant growth in Department's liability
  - Increasing cost of program to the Department

- ## Benefits To Management
  - Better knowledge for forecasting resource requirements
  - Better visibility of Program costs
  - May be candidate for audit validation

- **Lead Domain involved: Human Resources Management**

Environmental Liabilities

- What?
    - Navy Nuclear-powered Vessels ($11.2 Billion of $61.1 Billion)
    - Defense Environmental Restoration Program (DERP) ($39.7 Billion of $61.1 Billion)
    - Non-DERP (Active Installations) has no policy/methodology in place ($1 Billion of $61.1 Billion)
    - Base Realignment & Closure (BRAC) ($4.5 B of $61.1 Billion)
    - Chemical Weapons Disposal Program ($11.1 Billion of $61.1)

- Why?
    - Solutions are NOT systems dependent and we are close
    - Navy nuclear powered vessels estimating methodology passed audit
    - DERP non-operational range inventory 100% percent complete (per I&E Domain)
    - DERP policy is in place
    - Could eliminate in '05 with the right emphasis

- Benefits To Management
    - Better forecasting of resources requirements
    - Better information for calculating future BRAC costs

- **Lead Domain involved: I&E**

Military Equipment

- What?
  - All military equipment throughout the Department ($324.6 Billion of $443.2 Billion of total PP&E)

- Why?
  - Baseline valuation underway
  - Target is to complete 95% of all valuations by end of FY 05
  - Need to capture adds and deletes to maintain baseline effort

- Benefit to Management
  - Provide consistent approach for recognizing annual costs
  - Better forecasting of program requirements

- Lead Domain involved: Acquisition, Technology & Logistics (AT&L)

Ongoing Initiatives
Financial Reporting

- Inventory ($72.8 Billion) & Operating Materials and Supplies ($141.8 Billion)
  - Issued policy to use moving average cost
  - Completing baseline methodology
  - DLA, Army, and Navy are implementing systems

- Fund Balance with Treasury
  - Air Force and Army completing internal validations
  - Navy plans to assert September 2005
  - Anomalies in high-risk areas reduced
    - Intransits
    - Unmatched Disbursements
    - Negative Unliquidated Obligations

What Is Next?

- Entities need to work with Domains to import solutions into their plans
- Entities need to accelerate implementation of the process/policy portions of the solutions
- Policy proponents from OSD(C) will be working with entities and domains to update the web-based tool (portal)
- As solutions are implemented, emphasize and explain value to users
- Portal expected to be deployed in mid-December using FY04 dollars
- Domains need to designate a POC for access to the portal, if not already done.

Caution!

Restriction on FY 2005 O&M funds that may be expended in support of the MRFIP (Section 352 of the National Defense Authorization Act of FY 2005)